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Report of the United Nations High Commissioner for Refugees, questions relating to refugees, returnees and displaced persons and humanitarian questions

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Audit of the United Nations High Commissioner for Refugees Operations in Albania

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the audit of the United Nations High Commissioner for Refugees Operations in Albania.

2. The Secretary-General takes note of its findings and concurs with its recommendations.

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Summary

A. Introduction

In March 1999, an estimated 450,000 Kosovars fled to Albania. In June 1999, after the cessation of hostilities, the overwhelming majority of these refugees repatriated spontaneously to Kosovo. During the emergency period and thereafter, the Office of the United Nations High Commissioner for Refugees (UNHCR) spent approximately $56 million for "emergency assistance to Kosova refugees in Albania".

In November 1999, the Office of Internal Oversight Services (OIOS) conducted an audit of the UNHCR operations in Albania covering the 1999 emergency phase and the post-emergency phase through October 1999. To determine whether the problems identified during the audit had been resolved, OIOS conducted a follow-up audit in November 2000. A draft of the present report was shared with the UNHCR coordinator for south-eastern European operations whose comments have been reflected, as appropriate, in the final report.

B. Results in brief

The initial audit disclosed serious shortcomings in the management of the emergency operation by UNHCR and its implementing partners:

- Procurement by UNHCR and its implementing partners did not always meet UNHCR procurement standards, nor did it achieve best value for money;
- Assets and commodities were not properly tracked and thus could not be fully accounted for;
- Programme monitoring of and budgetary control by implementing partners were inadequate;
- Taxes levied on purchases made by UNHCR and its partners were not refunded;
- Staffing during the emergency phase was inadequate and suffered from frequent turnover.

The follow-up audit showed that UNHCR had made significant progress in addressing the problems resulting from the initial shortcomings. Specifically, UNHCR has:

- Improved procurement procedures;
- Introduced a requirement for pre-qualification of implementing partners prior to delegating major procurement to them;
- Identified assets valued at an estimated $8.7 million, which had not been accounted for at the time of the initial OIOS audit;
- Strengthened controls over the remaining commodities and the tracking of stock movements;
- Obtained a refund of taxes levied on purchases made directly by UNHCR.

OIOS found, however, that UNHCR could still improve:

- The staffing of emergency operations to ensure the continuity of operations and proper systems of internal control;
- The monitoring of partners to ensure that project objectives are achieved, on a timely basis, within the agreed budget, and with proper and timely financial reporting;
- Its asset management system to more accurately reflect both assets on hand and those provided to partners.

C. Recommendations

OIOS recommends that:

- UNHCR should ensure that emergency operations are adequately staffed with key positions in programme, finance and supply chain management and are filled on time, rotation is kept to a workable minimum and, where required, appropriate handover arrangements are in place;
- UNHCR should ensure that adequate systems for the tracking of assets and commodities are established immediately from the beginning of an emergency;
- UNHCR should review its rules and procedures for financial management, procurement and asset management to determine whether these should fully apply to emergency operations or whether certain exemptions are required under a formally declared emergency;
- UNHCR should renegotiate, as appropriate, existing cooperation agreements with host Governments to ensure that tax exemptions granted to UNHCR under the 1946 Convention on the Privileges and Immunities of the United Nations are extended to programme purchases made by implementing partners with UNHCR funds. Without such tax exemptions, local purchases by implementing partners should be kept to a minimum.

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I. Introduction

1. In March 1999, an estimated 450,000 Kosovars fled to Albania. Following the withdrawal of Yugoslav forces from Kosovo in June 1999, the overwhelming majority of refugees spontaneously repatriated within a period of days, an unprecedented occurrence. From the outset, UNHCR was responsible for coordinating humanitarian activities and for providing emergency relief, supplies and temporary shelter and subsequently assisting the refugees to return home. The accelerated repatriation was unforeseen and emergency activities, such as building transit centres and camps, became unnecessary after the refugees' departure. Consequently, funds originally allocated for emergency assistance to refugees were redirected to building infrastructure and developing the local economy in gratitude to the Government and people of Albania for opening its borders to, and housing, the refugees. Funds were also used to rehabilitate campsites and other facilities used by the thousands of refugees during their stay. The emergency operations in Albania represented a significant effort in terms of UNHCR human and financial resources. Total funds spent under project 99/YU/ALB/EM/170 entitled "Emergency assistance to Kosova refugees in Albania" amounted to $56 million.

2. In November 1999, the Office of Internal Oversight Services (OIOS) conducted an audit of the UNHCR operations in Albania. The main objectives of the audit were to determine whether UNHCR had established adequate internal controls over the programme activities implemented; had adequately safeguarded assets and commodities; and had complied with applicable regulations, rules and procedures. The audit was conducted in accordance with general and specific standards for the professional practice of internal auditing in United Nations organizations. In assessing the activities undertaken, OIOS took into account the emergency character of the operation. The audit focused on programme activities and covered the emergency phase from April to mid-July 1999 and the post-emergency phase, through October 1999.

3. The audit identified a number of systemic problems. Initial findings and recommendations were communicated to UNHCR in February 2000, to which UNHCR responded generally in a positive manner. A final audit report was submitted to UNHCR in September 2000. After receiving the reply of UNHCR, OIOS conducted a follow-up review in November 2000 in order to reassess the operations because of their significance. A draft of the present report was shared with the UNHCR Coordinator for south-eastern European operations whose comments have been reflected, as appropriate, in the final report. UNHCR has not provided additional comments on the final version of the report.

II. Procurement

4. During the emergency phase, UNHCR Albania delegated a major part of the procurement to implementing partners. UNHCR Albania did so without any assurance that the partners had proper procurement systems in place or were able to meet generally accepted procurement standards. Furthermore, UNHCR Albania did not seek advice from the Supply and Transport Section at UNHCR headquarters to determine the most favourable option in terms of costs, delivery times and standardization. OIOS found no evidence that procurement by partners was more efficient in terms of cost and delivery times. On the contrary, the auditors discovered numerous problems.

5. One partner spent UNHCR funds totalling $975,000 for the purchase of 39 second-hand buses, an average price of about $25,000 per bus. The purchase of the buses was based on informal quotations obtained by the partner from three international suppliers. According to the partner, the offers were submitted to UNHCR Albania, which made the selection. The age of the buses ranged between 15 and 22 years with speedometer readings averaging more than 460,000 kilometres. While 22 buses were redeployed to Kosovo for use in the so-called "confidence-building bus shuttle", 17, purchased at a cost of about $425,000, were in such poor condition that their estimated aggregate value was only $19,000, less than one year later. UNHCR Albania engaged a mechanic to examine the buses and determine their condition. He identified a variety of problems and estimated that the rehabilitation of the 17 buses would require an additional investment of some $121,000. The mechanic further estimated that similar buses in excellent functional condition would cost less than $6,000 in the local market. The buses were eventually donated, in December 2000, to the Government of Albania, for use in its operations.

6. *The partner claimed having followed UNHCR procurement policies and explained that UNHCR had given a very limited period in which to plan and implement the project of transporting the refugees back to Kosovo. It indicated that it had only a few days to plan the operation and only three weeks to fully implement it by having 40 buses, 17 trucks, 3 mobile workshops and 10 light vehicles and sufficient staff established on the ground. The partner also stated that it had strongly urged UNHCR to procure the vehicles through the UNHCR Supply and Transport Section, but was requested by UNHCR to do the procurement itself. The partner also said that the short time period precluded it from canvassing the market for additional potential suppliers. UNHCR Albania confirmed the partner's version. UNHCR headquarters stated that it had no information indicating it would have been possible to procure a large number of buses from any local supplier in a short period of time.*

7. OIOS noted that the 22 buses sent to Kosovo for use in this confidence-building bus shuttle were operational but were subject to frequent mechanical failure and required ongoing repairs and maintenance, as cited in the partner's internal documents. OIOS is concerned that, overall, little value was received for the $1 million invested. Furthermore, the selection of the supplier by UNHCR Albania, with the purchase made through the partner, circumvented normal UNHCR procurement procedures, thus foregoing the technical expertise of the UNHCR Supply and Transport Section and avoiding scrutiny by the UNHCR headquarters Committee on Contracts. OIOS believes that the absence of such scrutiny was not beneficial for the programme.

8. *In response to the audit recommendations and in view of the experience with procurement by implementing partners in other operations, UNHCR has recently amended the Governing Clauses for UNHCR Agreements, making a pre-qualification of partners in meeting UNHCR procurement standards a condition for delegating procurement exceeding $20,000 to implementing partners.* OIOS welcomes this policy change and is confident that it will contribute to making procurement on behalf of UNHCR more transparent, efficient and competitive.

9. Prior to the emergency, UNHCR Albania had contracted warehouse space from a company. During the emergency, UNHCR required additional space and rented various warehouses in Durres from the same company. The company also provided stevedores and trucking and transport services. UNHCR Albania did not conduct competitive bidding owing to the emergency. The approval of UNHCR headquarters Committee on Contracts was not sought, although the cumulative contracts awarded to this single supplier for these particular services during the emergency totalled approximately $500,000. This amount substantially exceeded the threshold of $100,000, which requires contract awards to be submitted to the Committee on Contracts. Furthermore, the amounts charged and the rates applied by the contractor exceeded those stipulated in the contract. *UNHCR Albania indicated that it had used this company for these services because it was the most qualified and was capable of responding quickly during emergency operations.*

10. The 1999 warehouse contract included certain services, such as extra stevedores, which were billed as provided. UNHCR paid for all services billed, but OIOS could find no evidence that UNHCR had actually verified the validity and accuracy of the invoices. Given that the company charged UNHCR amounts that exceeded the contracted amount, OIOS believes staff should have adequately documented that all invoices had been verified prior to payment.

11. The follow-up review found that procurement activities in 2000 were generally well administered and organized, a marked improvement over the situation identified earlier. *UNHCR Albania had awarded a new contract for warehousing and transport services on the basis of competitive bidding after obtaining the approval of the Committee on Contracts.*

III. Asset management

12. In the beginning of the emergency, many assets were distributed without adequate tracking, weakening control over them. This omission was compounded by the fact that some partners regarded the assets as their property. Consequently, when the emergency ended, certain partners transported assets to areas outside Albania, without informing or obtaining approval from UNHCR. At the time of the initial audit, UNHCR Albania had just begun verifying the assets provided to, or purchased by, the partners with UNHCR funds.

13. OIOS recommended that UNHCR properly identify and account for all assets as soon as possible. During the follow-up audit, OIOS noted substantial

improvement in this area. According to the UNHCR asset management system, about $8.7 million in assets had been identified as belonging to UNHCR. UNHCR Albania accomplished this through an extensive exercise, which was still ongoing as of December 2000, a year and a half after the end of the emergency. OIOS commends the current staff of UNHCR Albania for the efforts made and results achieved so far. Nevertheless, had sufficient attention been paid to the asset management function at the inception of the emergency, UNHCR Albania would not have had to invest significant staff resources to identify its assets after the fact.

14. Notwithstanding this marked improvement, the auditors found some areas that could be strengthened. Information contained in the UNHCR asset management system, which also tracks assets held by UNHCR partners, did not always reconcile with the partners' own records. OIOS also noted that partners no longer involved in UNHCR activities had retained assets, such as telecommunications equipment and computers, a year or more after the planned activities had ceased. OIOS believes that assets should be retrieved from partners after the completion of the project on a timely basis in order to make much-needed assets available for redeployment to other operations and to minimize the risk of loss and deterioration.

15. In 1999, UNHCR Albania informed the Government of Albania that it was transferring ownership of vehicles to the Government of Albania, in recognition of the support given during the refugee emergency. However, UNHCR Albania did not seek prior approval from the headquarters Asset Management Board, as is required. The case was processed by the local Asset Management Board and, in June 2000, sent to the headquarters Board, which approved the transfer of ownership of the vehicles, valued at $192,000, in December 2000. OIOS noted that, at the time of the follow-up audit, the vehicles used by government agencies retained UNHCR license plates. Since UNHCR may be held responsible for any accident caused by vehicles bearing its license plates, retrieving them is important in order to limit its liability. At the time of writing the present report, only 6 out of 34 license plates had been retrieved. *UNHCR Albania explained that various attempts to recover the license plates from the Government had so far been unsuccessful. UNHCR Albania has sought the assistance at the highest levels of the Government of Albania and has formally notified the Government that it declines any responsibility for damage caused to or by such vehicles carrying UNHCR number plates.*

IV. Warehousing

16. During the period March to August 1999, non-food items, such as tents, blankets and mattresses, valued at more than $12 million, arrived in Albania, but not all commodities were systematically tracked. The UNHCR inventory system, the commodity tracking system (CTS) did not start to operate in Albania until mid-May 1999 and the users experienced technical problems at least for several months thereafter, reducing its effectiveness. As many shipments were being sent directly by non-governmental organizations, Governments and bilateral donors, UNHCR Albania informed the auditors that many items entered Albania without any identifiers, especially during the first weeks of the emergency, making it virtually impossible to initially track the items. In addition, to facilitate the movement of goods, trucks were loaded directly from the cargo carriers for transport to the camps without all the items having been counted or identified. OIOS thus was unable to determine conclusively whether commodities delivered to the country ultimately had been received by the intended recipients, UNHCR and the refugees. *UNHCR indicated that none of the seven UNHCR field offices operating during the emergency experienced any shortfalls.* Further, CTS crashed in August 1999 and UNHCR Albania therefore decided to start anew with reliable data by doing a physical count of the commodities in the main warehouses.

17. The commodities in the main warehouses consequently were physically counted for the first time in September 1999 and numerous discrepancies were revealed between the items in the warehouses and the amounts recorded in CTS as of August 1999. It was decided that the information derived from the physical count in the main warehouses would become the starting point for tracking commodities. A complete verification and reconciliation of items delivered during the emergency phase therefore was no longer possible. In July 2000, a major part of the items held in Albania were redeployed to the Eritrea emergency operation. Subsequently, all warehouses were consolidated into one. A physical count of the remaining items was conducted in October 2000 and

revealed only minor discrepancies. During the follow-up audit, OIOS test checked the CTS by judgementally selecting goods in the warehouse and tracing them back to CTS and vice versa. No exceptions were noted. OIOS appreciates the substantial improvements made in managing the commodities with the remaining items now properly managed and controlled.

V. Programme management

18. During the initial audit, OIOS noted a number of deficiencies in programme management. UNHCR Albania tolerated overspending of budget lines and did not identify incorrect reporting of expenditure by implementing partners, thereby diminishing the effectiveness of budgetary control.

19. UNHCR Albania also did not always revise the sub-agreements with its partners in a timely manner to properly reflect the actual project activities. With the spontaneous repatriation of almost all the refugees between mid-June and early July 1999, the original project activities abruptly ceased. Instead, funds initially budgeted but no longer required for assistance to refugees, were redirected towards rehabilitation and local development projects, many of them in the form of quick impact projects. Despite a complete change in objectives, beneficiary groups and types of activities, the existing sub-agreements with some partners were not revised until November or December 1999, and in one case, February 2000. Thus, partners were implementing activities on behalf of UNHCR without a contractual basis. Further, the lack of properly defined objectives and specific budgets contributed to misunderstandings between the partners and UNHCR. Partners informed the auditors that they often acted on the basis of a verbal agreement with previous UNHCR Albania staff, but these agreements were then contested by successive UNHCR staff members.

20. OIOS also noted that several partners had been implementing activities without valid sub-agreements. For example, UNHCR substantially changed one partner's activities at the end of the emergency period to include new objectives and new activities, which involved a reallocation of 45 per cent of the agreed sub-project budget. This was done, however, without revision of the sub-agreement. As a result, the partner was implementing an $860,000 programme without a clear legal basis.

21. OIOS appreciates the difficult circumstances of the emergency and immediate post-emergency operations, but a delay of almost six months in formalizing substantial changes to a sub-project is not considered acceptable, even in a post-emergency situation.

22. In other cases, UNHCR Albania did revise the sub-agreements, but without taking into account changes already in effect. For instance, with one partner, UNHCR revised the sub-agreement to reflect the reduction of a specific budget line to $450,000, although the partner already had informed UNHCR Albania that it had spent $553,000. Three months later, another revision was made to the sub-agreement, again with no change to the budget line concerned although by that time $607,000 already had been spent under the budget line, exceeding the allotted amount by 35 per cent. OIOS believes that this example indicates inadequate financial monitoring by UNHCR.

23. During the follow-up audit, OIOS found that some partners had continued to negotiate sub-agreements with UNHCR even after the project period had ended. Other partners were over six months late in submitting the required financial information. *UNHCR Albania explained that it had urged its partners to comply with the requirements but to no avail.* OIOS believes that UNHCR headquarters should have been involved at an earlier stage in order to discuss this issue with the partners' headquarters to expedite a solution.

24. UNHCR Albania did not always sufficiently monitor the partners' performance, which resulted in a failure to identify or prevent problems in a timely manner. Partners unilaterally changed activities such as rehabilitation and reconstruction projects without UNHCR Albania's approval. In one instance, one partner was tasked with rehabilitating a campsite previously occupied by refugees. The rehabilitation was stopped suddenly owing to a legal dispute with the owner. An estimate of the degree of completion was prepared in order to determine the amount owed to the contractor hired by the partner. The partner estimated that the work was 65 per cent complete, based on signed "daily material quantity sheets", and correspondingly paid an amount of $258,000 to the contractor. The UNHCR estimate, however, varied between 10 and 50 per cent, depending on which technical consultant was asked. OIOS believes that the huge gap between the technical consultant's assessed

completion rate of 10 per cent and the partner's reported completion rate of 65 per cent, on the basis of which it paid would have been identified earlier on if UNHCR Albania had more timely monitored the project. UNHCR also could have verified whether the amount paid by the partner was justified. This points to the need for strengthening project monitoring. *UNHCR Albania agreed that serious discrepancies existed in the reporting of the project and that the exact completion rate was only an estimate at best. However, notwithstanding serious doubts about the reports submitted, UNHCR Albania does not see a sound legal basis for recovering funds from the partner.*

VI. Taxation

25. According to the 1946 Convention on the Privileges and Immunities of the United Nations, to which Albania is a party, Member States will make appropriate administrative arrangements for the remission and return of duty or tax charged on important purchases made by the United Nations for official use. In 1999, UNHCR Albania paid a value added tax (VAT) totalling more than $61,000, for which reimbursement was still pending.

26. *Subsequently, UNHCR Albania confirmed that close to $55,000 had been recovered and the remaining amount related to payments not eligible for a tax refund. UNHCR Albania has further confirmed that, for purchases made in 2000, a total of $15,000 had already been refunded and that currently reimbursement is sought and obtained on a monthly basis without problems.* OIOS is pleased to note that the efforts made by UNHCR Albania have been successful and that the tax privileges stipulated by the 1946 Convention are now granted without problems.

27. Much higher amounts, however, were charged for purchases made by UNHCR partners for programme purposes. At the time of the initial audit, one partner said it had already paid about $500,000 in VAT and was planning to seek reimbursement. That partner subsequently revised its estimate of reimbursable VAT downward because of the requirements of the Government but did not quantify the amount. During the follow-up audit, OIOS learned that several partners were in negotiations with the Government but it was a time-consuming and unproductive process. *UNHCR Albania informed the auditors that the Government of Albania challenges the application of the 1946 Convention on the Privileges and Immunities of the United Nations made by UNHCR partners.* Indeed, neither the 1946 Convention nor the 1994 cooperation agreement between UNHCR and the Government of Albania contains a stipulation on tax exemption for UNHCR partners. Given this legal situation, local purchases by implementing partners should have been kept to a minimum. UNHCR Albania, on behalf of its implementing partners, together with other United Nations agencies should nevertheless continue to negotiate with the Government of Albania for an amicable solution to obtain at least a partial refund of the significant amounts of VAT charged in the past. Partners should be urged to submit proper documentation for any VAT payments made from UNHCR project funds without further delay.

28. OIOS noted that a similar situation exists in a number of other countries that are parties to the 1946 Convention on the Privileges and Immunities of the United Nations, thus increasing the cost of goods and services purchased by UNHCR partners for humanitarian purposes. UNHCR should therefore renegotiate, where appropriate, the cooperation agreements with a view to extending the tax exemption to programme purchases made by implementing partners with UNHCR funds. Pending a solution, UNHCR should not delegate purchasing to implementing partners and should ensure that invoices are always in the name of UNHCR. The Office of Legal Affairs has recently clarified that UNHCR is indeed entitled to reimbursement of any VAT payments on goods purchased by UNHCR for use either by UNHCR or its implementing partners for official UNHCR purposes. Significant tax savings would result if implementing partners avoided making purchases with UNHCR funds.

VII. Staffing

29. Delays in recruiting and assigning appropriate staff as well as the high turnover of such staff explains many of the problems encountered during both audits. For example, one telecommunications staff member said he had been requested for Albania in early April 1999, but arrived there only in May since it took over a month to process the travel request. During the initial stages of the crisis, immediate deployment of telecommunications/computer personnel could have facilitated communication between the various offices.

According to one logistics officer, during the first week of the emergency, the office in Albania was severely understaffed in relation to the number of refugees and commodities entering the country. This was a critical phase of the operations, and out of necessity, many activities devolved to prefectures and contractors with minimum monitoring. Furthermore, while the auditors found that many staff members were very capable and extremely conscientious, others lacked expertise in the area to which they were assigned. Between the end of March and mid-August 1999, three successive administrative officers had been assigned to Tirana. Even under normal circumstances, this kind of turnover disrupts the continuity of operations. Under emergency conditions, the negative impact on operations is further exacerbated.

30. The auditors noted that some staff members felt that adherence to UNHCR rules and regulations was of a lesser priority under emergency conditions. Certain staff members stated explicitly that the emergency operation took precedence over strict adherence to rules and regulations. OIOS agrees that, during an emergency, certain regulatory and procedural requirements may have to be reduced in order to address effectively the refugees' immediate needs. However, it cannot be left to the discretion of individual managers and other staff members in the field to decide ad hoc whether, and to what extent, existing rules and procedures shall be complied with. There is a need for a clear policy determining which rules and procedures may be applied differently under a formally declared emergency operation. For example, the dollar thresholds requiring a formal bidding process or requiring the involvement of a contracts committee might be increased; the level of delegation of authority to the field might be increased; a significantly higher transaction limit for cash payments might be established; approval requirements for the redeployment of assets between different countries of an emergency situation might be simplified or waived; budgetary transfers within project budgets might be authorized at the highest level (sector level) and at a higher rate than the usual 15 per cent; procedures for recruitment and posting of staff might be simplified and shortened. UNHCR should determine to what extent such a liberalization of rules and procedure is warranted.

31. Some staff members responsible for negotiating the initial sub-agreements and dealing with the partners concerning the use of assets had left Albania prior to the initial audit mission. Remaining staff members were revising the budgets, not only to reflect the post-emergency phase, but also to adjust some budget lines previously agreed to orally. This often proved difficult because the rationale for using particular budget lines and the amounts allocated were not always clear.

32. OIOS appreciates that many of the UNHCR international staff members involved in the 1999 emergency operation are no longer in Albania. Nevertheless, current staff are responsible for addressing the problems incurred before their tenure. The staff generally were commendable in executing their responsibilities but their lack of first-hand knowledge about the 1999 operations hampered their efforts to resolve problems.

33. Although UNHCR has an emergency management response team, which can deploy almost immediately after a refugee crisis is identified, the team is committed to remaining in the emergency situation for two months, a limited period of time. The initial deployment of the emergency management response team is often followed by a sequence of short-term assignments of staff members until a regular posting takes effect. OIOS believes that key staff members serving in an emergency operation should be assigned for a minimum period of time, and that whenever a rotation is required, proper hand-over procedures need to be arranged. Given the frequent staff changes during emergency situations, proper documentation of decisions becomes even more important. While noting that many of the above issues have been extensively addressed in the independent Kosovo evaluation and discussed in the standing committee meetings of the UNHCR Executive Committee, OIOS will review the UNHCR staffing of emergency operations during the course of 2001 to identify and analyse general problems and assist in addressing them.

VIII. Implementing partners

34. During the initial audit, in certain instances, the auditors were unable to verify the partners' expenditure in full because budgets were still under revision to reflect programme changes resulting from the end of the emergency phase. Furthermore, access to records was, in some cases, limited. One objective of the

follow-up audit was to review the final information reported by the partners.

35. Several partners submitted their final financial reports to UNHCR with considerable delay. This forced UNHCR to keep the project open for months after its planned closure. As of November 2000, one partner still had not submitted its final report in full, as required, citing staff turnover and record-keeping difficulties as reasons for the delay. *UNHCR Albania informed OIOS that the partner eventually provided the report in December 2000.* Another partner did not submit its final financial report until September 2000, for a sub-project that had ended in December 1999. The partner explained that the delay was due to UNHCR Albania's indecisiveness on how to report certain expenditures. *UNHCR Albania refuted this, saying the delay was a result of an incorrect final financial report and staff turnover by the partner.*

36. One partner submitted what was supposed to be its final financial report in June 2000, 10 months after the contractually agreed-upon deadline. The partner, an experienced international non-governmental organization, explained its tardiness by saying that it had been overwhelmed by the massive workload caused by its many activities following the crisis. The report revealed that the partner had overspent the agreed project budget by some $243,000 or 11 per cent of the budget. This points to serious weaknesses in the partner's budgetary control and financial reporting. The over-expenditure prompted UNHCR to renegotiate several budget lines in July 2000. As a result, the partner agreed to reimburse UNHCR about a third of the over-expenditure ($85,000) while UNHCR absorbed the difference, increasing the project budget accordingly. The partner resubmitted its final report in August 2000 to reflect the renegotiated budget.

37. This partner was responsible for operating the convoys that transported refugees home. The partner rented vehicles for an initial period of three months, starting in July 1999, at a total cost of $115,000. The rental fees were paid in advance. Since the operations ceased in August, OIOS believed that UNHCR should not be charged rent for the full three-month period. In the previous audit report, OIOS recommended that the partner reimburse UNHCR approximately $30,000. *UNHCR Albania considers this issue resolved with the reimbursement of part of the over-expenditure by the partner.*

IX. Government partners

38. During the emergency phase, the implementation of sub-projects with a total value of about $17 million was entrusted to various government implementing partners. In September 1999, UNHCR Albania engaged an audit firm to review the financial reports submitted by its government partners. While the external auditors were able to issue audit reports with unqualified opinions on five of the sub-projects implemented, they issued a qualified opinion on the sub-project accounts of another ministry. This qualification was based, in part, on the lack of valid supporting documents and unreconciled differences between the balances reported to UNHCR and those presented in the financial records of the ministry.

39. Furthermore, the external auditors submitted reports on two sub-projects totalling over $13 million implemented by a ministry, for which no opinions could be expressed. These auditors issued a disclaimer of opinion on one sub-project because they were unable to obtain independent confirmation of the accuracy of the amounts recorded as payments to host families. For the second sub-project, they were unable to do detailed testing of accounts at various municipalities because the responsible government officials were not available, could not identify UNHCR expenditures or could not provide supporting documentation. Consequently, the auditors could not express an opinion as to whether the financial statements presented a true and fair view of the receipt and use of UNHCR funds. As a result, UNHCR has no assurance that the bulk of project funds managed by its government partners has been spent and accounted for properly. Given that substantial sums of funds were involved, OIOS recommended that UNHCR not enter into further sub-projects with this partner. *UNHCR Albania responded that further sub-projects with this entity were not foreseen in the short or medium term.*

X. Conclusions

40. **The initial OIOS review disclosed serious shortcomings in the management of the emergency operation in Albania by UNHCR. The follow-up review showed that UNHCR had made considerable progress in addressing the concerns raised. Procurement procedures have been improved, and a pre-qualification of implementing partners is**

required prior to delegating the procurement to them. Programme assets totalling $8.7 million, not previously accounted for, have been identified, recorded and retrieved. Controls have been strengthened over commodity tracking, and a refund of taxes levied on purchases made by UNHCR was obtained.

41. However, further efforts are needed to introduce guidelines and procedures to ensure non-recurrence of deficiencies in the management of emergency operations. Key positions need to be efficiently staffed; adequate systems for tracking assets and commodities need to be established from the outset; and rules and procedures need to be reviewed to determine whether they should fully apply to an emergency operation.

XI. Recommendations

Recommendation 1

UNHCR should ensure that emergency operations are adequately staffed with key positions in programme, finance and supply chain management filled on time, rotation should be kept to a workable minimum and, where required, appropriate hand-over arrangements are in place (AR2000/202/06/01).

Recommendation 2

UNHCR should ensure that adequate systems for the tracking of asset and commodities are established immediately from the beginning of an emergency (AR2000/202/06/02).

Recommendation 3

UNHCR should review its rules and procedures for financial management, procurement and asset management to determine whether they should fully apply to emergency operations or whether certain exemptions are required under a formally declared emergency (AR2000/202/06/03).

Recommendation 4

UNHCR should renegotiate, as appropriate, existing cooperation agreements with host Governments to ensure that tax exemptions granted to UNHCR under the 1946 Convention on the Privileges and Immunities of the United Nations are extended to programme purchases made by implementing partners with UNHCR funds. Without such a tax exemption, local purchases by implementing partners should be kept to a minimum (AR2000/202/06/04).

(*Signed*) Dileep **Nair**
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